

U.S. GOVERNMENT FINANCING FOR SERVICE EXPORTS

by James Joy

U.S. & Foreign Commercial Service

Securing financing for exports is one of the frequently identified problems that small and medium exporters have in completing successful international transactions. In an attempt to demystify this area of trade finance, we touch on several programs designed to assist businesses at various points in the export transaction as well as level of expertise and sophistication. Each of these programs can be explored in more detail through the administering agency. A list of contacts is provided at the end of the article.

COMPANY START-UP

No federal export financing assistance is available for company start-ups or for companies that have been in business less than one year. Companies in business at least a year can apply for a loan guarantee via SBA's Export Express Program (see below).

MARKET DEVELOPMENT

For service companies that want to develop their export markets — SBA's Export Express is a good starting point. (See the April 2001 *Export America*) This new program can be used to cover the costs of entering a new market or expanding an existing market. Covered

expenses can be either foreign (e.g., business trips abroad, costs associated with exhibiting in a foreign trade show, advertising) or domestic (e.g., translation of product literature, internationalizing the company's web site, training staff). Export Express is a loan guarantee of 85 percent on loans — with a maximum amount of \$150,000. A company's loan application is processed by one of about three hundred approved private lenders. These general company loans require presentation of a business plan demonstrating that the use of the proceeds will result in increased export sales.

FINANCING AN EXPORT ORDER

WORKING CAPITAL

For companies that need help covering expenses directly related to an export, there are several working capital guarantee programs available. Financing can be for either a single transaction or for an on going supply of services. To qualify, companies must have been in business (not necessarily in exporting) at least one year, and the borrower must provide the lender with an assignment of proceeds of the foreign contract/purchase order. Be aware, however that some banks may still be reluctant to provide the financing. Both SBA and the Export-Import

Bank of the United States (Ex-Im Bank) have Export Working Capital programs. In general, SBA handles smaller requests (loans of \$1.1 million and below) while Ex-Im Bank can handle larger requests. Ex-Im's delegated lenders, however, can make loans smaller than \$1.1 million. Examples of services sector activities supported include training staff, developing software and developing architectural plans. For small businesses that are women or minority-owned or located in economically depressed or rural area, Ex-Im Bank offers a special working capital guarantee program with 100 percent coverage (instead of 90 percent for its regular program). In addition, these particular small businesses may come directly to Ex-Im for loans smaller than \$1.1 million. Ex-Im Bank also has special programs for architecture, engineering and environmental consulting services for which traditional collateral often is not sufficient to support a loan. Ex-Im Bank may also consider accommodating similar service companies and may be willing to disburse against actual contract-related costs.

BUYER FINANCING

Through credit offered in the form of direct loans or guarantees, Ex-Im Bank can help a potential international buyer

obtain competitive dollar-denominated loans (or in some circumstances, other foreign currencies) to purchase the U.S. company's services.

EXPORT CREDIT INSURANCE

Ex-Im Bank offers insurance covering political and commercial risk. The protection against buyer default allows the U.S. exporter to offer open-account financing with a typical 60-day repayment period although, 180 days is also feasible. Particularly useful to many services companies is the Small Business Policy that has 100 percent coverage for political risk and 95 percent coverage for commercial risk. The Small Business Policy includes a reduced premium rate schedule, no first loss deductible and an enhanced ability for the exporter to discount foreign accounts receivable directly to a bank.

FOREIGN DIRECT INVESTMENTS REQUIRED TO DELIVER SERVICES

Financing assistance for foreign direct investments needed to complete a service export may be available, but service sector companies must first take into account certain qualifications.

CONTENT REQUIREMENTS

For coverage under any of Ex-Im's programs, an export must have at least 50 percent U.S. content and no more than 15 percent local costs. Therefore, while exports such as power generation or transportation services that include sizable equipment exports may be eligible, investments in overseas legal, business consulting or financial services offices likely would not qualify. The SBA does not have a U.S. content requirement for its loan guaranty programs.

DEVELOPING COUNTRIES

The programs of the Overseas Private Investment Corporation (OPIC) do not have content requirements, but are available only to companies investing in developing countries—and not in developed countries where most service-related investments occur. The

OPIC website below has a listing of the 140 countries where OPIC loans can be used. When available, OPIC programs can be very beneficial to the exporter. OPIC focuses on long-term investments abroad and can underwrite new investments, privatizations or modernizations. It can cover new branch offices or service centers, warehousing or small assembly operations. Its programs are flexible enough to encompass joint ventures and funding for a would-be franchisee. OPIC would be well suited for contracting to provide construction, advisory or technical assistance services. OPIC also offers political risk insurance covering currency inconvertibility, expropriation or political violence. In addition, OPIC's statute encourages it to give preference to small businesses, defined by OPIC as having annual sales under \$250 million.

TRADE DEVELOPMENT AGENCY (TDA)

TDA provides grants to fund feasibility studies and other planning services for major projects that are economic development priorities of recipient countries. TDA only operates in developing and middle-income countries. The types of projects that TDA funds include energy and natural resource development, transportation, telecommunications and environmental.

CONVENTIONAL EXPORT FINANCING

Exporters located in smaller communities may have difficulty finding a bank that will provide commercial financing for their exports. A solution might be to use the Export Finance Matchmaker, an interactive Internet service developed by the Department of Commerce. The Matchmaker databank includes banks and other financial institutions that have been invited to participate. Requests for matchmaking from would-be exporters are sent to likely sources of finance. This is a free service to exporters — banks pay a participation fee. ■

ON-LINE INFORMATION

One web address is enough to get you to all the web sites that you need for exporting: www.export.gov. This "portal" site developed by the trade promotion agencies of the federal government quickly matches exporters needs and interests with the right government programs and resources. Some sites that might be useful (which can be reached via the portal) are:

www.usatrade.gov—U.S. Commercial Service

www.sba.gov—Small Business Administration

www.exim.gov—Export-Import Bank

www.opic.gov—Overseas Private Investment Corporation

www.tda.gov—Trade and Development Agency

www.ita.doc.gov/td/efm—Export Financing Matchmaker